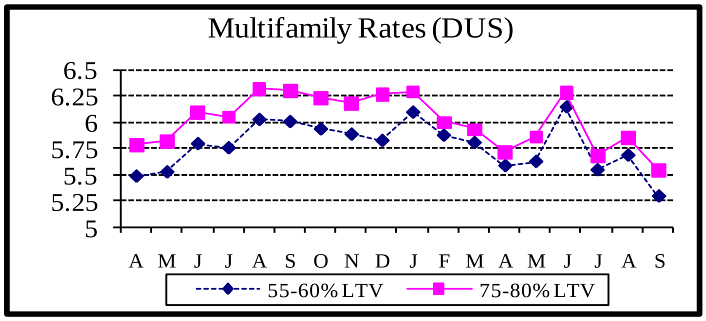
Multi-Family Loan Update October 1, 2009

Key Rate Indices	Current	Last Month	Change
6 month Libor	0.62%	0.73%	-11 Bps
1- year Libor	1.24%	1.30%	-6 Bps
Prime	3.25%	3.25%	-
Fed Funds	0.25%	0.25%	-
1 year CMT	0.40%	0.43%	- 3 Bps
5-Year Treasury	2.21%	2.32%	- 11 Bps
10-Year Treasury	3.21%	3.37%	- 16 Bps



Rate Update

For the last few months I have been preaching caution about interest rates, worrying that the large stimulus will force rates up. I still have the caution, but I've giving up preaching. It looks like rates are going to stay low for a while even with the large deficit and stimulus. We all know the danger, but until things change we should take advantage of the low rates.

Rates continued to drop last month. Over the last month 6-month Libor is down 6 Bps and the 10 year bond is down 16Bps. This is including the large, flight to quality, drop today. This continues the trend from August and leaves treasury rates at very attractive levels, at least from a borrower's perspective. With spreads for agency multifamily rates staying stable and even dropping for lower leveraged transactions, borrowers are able to receive the lowest rates available since mid-2005.

During the last month the big news has been talk about TALF and PPIP giving the CMBS market a little life and changes in IRS rules allowing some additional flexibility to managing CMBS loans. On the first item, it seems like there is a bunch of money being invested to work with the TALF and PPIP programs and purchase CMBS. While this may help owners of CMBS paper find better liquidity I don't expect this to have any effect on the loan market. These programs are targeted to existing CMBS and while they will help clear the ruble of old CMBS they will not create a market for new transactions.

The new IRS rules are big news. The change in REMIC rules allows a servicer to negotiate a workout on a loan as long as there is "significant risk of default…upon maturity…or at an earlier date". This does two things, first it allows the borrower to negotiate a workout without going into default and, in many cases, moves the discussion of a workout from the special servicer to the primary servicer. This should help many borrowers especially ones whose properties are upside down from a value perspective but do have some cash flow. However I am not sure this is a good thing for the market as a whole. The result of this will be more workouts and kicking the can down the road. Lenders will foreclose less and therefore not remove the troubled assets from the system. The defaults will linger into the future, which they are betting is more sunny than today.

The multifamily mortgage market continues to be slow despite very attractive rates. Many borrowers are still sitting on the sidelines because of a concern about loan proceeds. With values down and underwriting conservative borrower's are not achieving the loan proceeds they want or need. I am not sure this is the right attitude. I think many borrowers will regret that they did not take this opportunity to lock in low rates even if it meant no cash out on the loan or investing additional equity.

Freddie and Fannie are still leading the market. While they are not doing as much business as they would like, they are still doing the lion's share of the loans being made. They really have no competition. Over the last few months Life Companies have started to lend, but they are not really competing in the multifamily arena because they cannot compete with agencies rate or leverage. HUD is still busy, but given the timeframe of a HUD deal (4-6 months) this is only an option for patient borrowers who need the leverage HUD provides. Banks are still active, particularly on smaller properties but again their rates are well above the agency lenders. However, some banks, particularly if you have a relationship, can provide more leverage making them a very good option for certain properties.

One interesting item this month is that a larger number of Fannie DUS lenders are starting to focus on the small loan market. Every few days another DUS lender says ramping up their small loan program. This is good news for owners of $1-$5 million properties. However, if you are a borrower in this space, be careful. Many of these lenders do not really know the Fannie program or how to underwrite smaller properties which can cause problems. Make sure your lender, or broker, has experience in small loans before you start working with them.

Multifamily Rates*				
	Loan Terms		Fixed Rate	
	Min. DSC	Max. LTV	5-Year	10-Year
Freddie Mac	1.25-1.40x	65%-80%	4.50% - 5.00	4.95% - 5.75%
Fannie Mae (DUS)	1.20-1.40x	70%-80%	4.30% - 5.00	4.95% - 5.60%
FHA/HUD	1.175%	85%		5.00% - 6.00%*
Life Companies	1.30-1.50x	65%	6.00% - 7.50%	5.75% - 7.50%
Banks	1.20-1.30x	70% - 75%	5.75% - 7.00%	N/A

* FHA loans are 35 year fully amortizing and include MIP. Data is based on informal survey of lenders. .

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If you would like additional information on multifamily rates or are looking for a loan on any type of apartment project please give me a call at 847-421-2217 or send me an e-mail us at Aklingher@mfloan.com